

The pass-through entity tax election

Offer an alternative to owners facing the SALT cap

Executive summary:

- The pass-through entity tax (PTET) election allows business owners in 36 states and Washington D.C. to shift state income tax obligations from the individual to the business entity, avoiding the federal SALT deduction cap and generating a full federal business deduction.
- For financial advisors, proactively educating eligible clients — particularly high-income owners in high-tax states — about this election represents a meaningful opportunity to deliver measurable value and deepen client relationships.

A single election can unlock meaningful savings

One of the most impactful opportunities for tax savings for business owners today may be a simple election on their state income tax return: the pass-through entity tax (PTET) election. Available to owners of pass-through business entities in most states with an income tax, the election shifts state income tax obligations from the owner to the business itself, which may result in significant overall tax savings.

For advisors, ensuring your affected clients are aware of the pass-through entity tax and election is an opportunity to share expertise, add measurable value, and strengthen relationships.

A personal tax liability becomes a business deduction, without a SALT cap

The income taxes most business owners pay on their individual state tax returns are deductible on their federal returns — but only up to the state and local tax (SALT) cap (\$40,400 in 2026). And that cap is subject to income phase-outs, meaning high-earning owners may see little or no benefit from the individual deduction.

The PTET election's primary value lies in its ability to strategically navigate the SALT cap. Without the election, state income taxes flow through to owners personally — and any federal deduction for those taxes is capped. With the election, the business entity pays state income taxes on the owners' allocable share of income and claims a full federal deduction under Section 162 of the Internal Revenue Code. Because that deduction is made at the entity level, it falls entirely outside the reach of the individual SALT limitation, reducing owners' taxable income before it ever reaches their personal returns.



James Bergeron, J.D.

*Advisor Education
Specialist*

The pass-through entity tax election

To prevent double taxation, states with PTET regimes provide individual owners with either a corresponding state tax credit or an income exclusion on their personal returns. In states that offer a full dollar-for-dollar credit, the net state tax cost to the owner remains neutral — and the federal savings are preserved.

Using PTET election

Pass-through business pays state and local income tax on owner's behalf at the entity level

Business deducts the tax as a business expense before income flows to owner

No SALT cap applies. Business deducts the full amount of the taxes paid, reducing the federal taxable income that passes to owner

Unlimited federal deduction for state and local taxes paid

Using SALT deduction (without PTET election)

Owner pays state and local taxes directly on their share of business income

Owner claims the taxes paid as itemized deduction on Schedule A

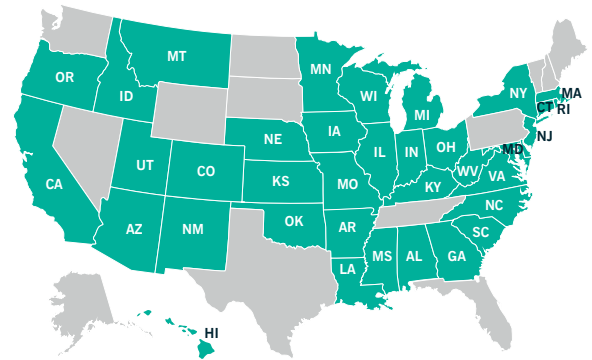
SALT deduction capped at \$40,400.*
Any paid taxes above \$40,400* cannot be deducted on the owner's federal return. Cap may be further reduced above certain income thresholds.

Federal deduction limited to \$40,400*

*Amount indexed annually for inflation.

Where the election is available

Thirty-six states and the District of Columbia currently have enacted some form of PTET legislation. If your client's business operates in one of those states, the election may be available.



Source: AICPA, as of March 2026.

State rules vary

PTET rules differ significantly from state to state. Some states require an annual election. Others allow the election on the original return. Some states apply the tax to net income; others calculate it on distributive shares. Credit mechanisms vary as well — some states offer a full dollar-for-dollar credit, while others provide a partial credit or exclusion.

Eligibility rules also vary, but the election is generally available to partnerships, multi-member LLCs taxed as partnerships, and

S corporations. Most states exclude sole proprietorships, single-member LLCs disregarded for federal tax purposes, and publicly traded partnerships. In addition, although some states allow trusts to be owners, careful analysis by a tax advisor is recommended to ensure compliance with state rules.

State legislatures continue to refine these rules in response to federal developments. Before recommending the PTET election to any client, verify the current state rules and coordinate with the client's CPA or tax attorney to confirm the entity's structural eligibility.

Who benefits most

The PTET election delivers the greatest federal tax savings when:

- The owner faces high effective state income tax rates
- The owner has exhausted individual SALT deduction capacity
- The entity generates consistent and meaningful taxable income
- The owner resides in a high-tax state such as California, New York, or New Jersey

The election is less beneficial when owners have significant individual deductions that already offset state tax liability, when the business operates in low-tax states, or when net operating losses complicate use of the credit. The election may also be inadvisable if paying the tax at the entity level creates cash flow challenges for the business. Any changes to the federal SALT cap could also shift the calculus, so clients should understand the legislative environment.

Why the PTET election (still) matters

The PTET election originated as a direct response to the Tax Cuts and Jobs Act of 2017, which capped the individual SALT deduction at \$10,000. That cap reduced the value of a significant deduction for many high-income business owners.

More recent legislation — the One Big Beautiful Bill Act (OBBBA) — temporarily raised the SALT cap to \$40,000, indexed for inflation. But the cap is subject to income limitations and phase-outs, which means high-earning clients may still face restricted or no benefit from the individual deduction. The PTET election sidesteps those limits by converting what would be a personal state tax obligation into a deductible business expense.

Six steps to put this strategy to work

1

Build your outreach list

Identify clients who own interests in pass-through entities in states with an active PTET regime. Prioritize those in high-tax states with significant business income who are already at or above the SALT cap on their individual returns.

2

Evaluate entity structure and ownership

Confirm that the entity's ownership structure doesn't disqualify the election. Complex arrangements involving trusts, corporate partners, or tiered entities require extra scrutiny.

3

Model the tax impact

Work with the client's accountant and tax attorney to quantify the federal tax benefit before making the election. Account for state credit adjustments, estimated payment requirements, and any cash flow implications at the entity level.

4

Start early

Bring up the PTET election early in the calendar year. Many states set election deadlines mid-year or require estimated tax payments at the entity level throughout the year.

5

Communicate the legislative risk

The PTET election is a strong tool today, but its relative benefit is tied to federal policy that continues to evolve. Keep clients informed about potential SALT cap changes and their implications for this strategy.

6

Document the election

Make sure the entity's governing documents and meeting minutes reflect the election decision, particularly in states that require member consent. Maintain documentation of estimated payments and credits to support preparation of individual returns.

Seize the opportunity

Business owners face tax challenges that most individual investors don't. They need advisors who understand those challenges and can help navigate them. By bringing opportunities like the PTET election to clients' attention you can demonstrate that you are engaged, informed, and focused on outcomes that matter.

Nuveen offers a range of tax planning education for advisors and their business owner clients.

If you have questions or would like more information, please contact your Nuveen Advisor Consultant or call 800.221.9271.

Endnotes

This material, along with any views and opinions within, are presented for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market, economic, or other conditions, legal and regulatory developments, additional risks and uncertainties, and may not come to pass. There is no promise, representation, or warranty (express or implied) as to the past, future, or current accuracy, reliability or completeness of, nor liability for, decisions based on such information, and it should not be relied on as such. This material should not be regarded by the recipients as a substitute for the exercise of their own judgment.

Tax rates and IRS regulations are subject to change at any time, which could materially affect the information herein.

This report contains no investment recommendations and should not be construed as specific tax, legal, financial planning or investment advice. The TIAA group of companies does not provide legal or tax advice. Clients should consult with their personal legal or tax advisor regarding their specific circumstances.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances

of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example **Performance data shown represents past performance and does not predict or guarantee future results. Investing involves risk; principal loss is possible.**

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Nuveen, LLC provides investment solutions through its investment specialists.

FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR PUBLIC DISTRIBUTION AND NOT FOR USE BY RETAIL INVESTORS

nuveen

A TIAA Company